

Minutes for January 28, 1966

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin

MM

Gov. Robertson

CRB

Gov. Balderston

SB

Gov. Shepardson

SM

Gov. Mitchell

MD

Gov. Daane

DA

Gov. Maisel

MA

Minutes of the Board of Governors of the Federal Reserve System on Friday, January 28, 1966. The Board met in the Board Room at 9:30 a.m.

PRESENT: Mr. Balderston, Vice Chairman  
Mr. Robertson  
Mr. Daane  
Mr. Maisel 1/

Mr. Sherman, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Young, Senior Adviser to the Board and  
Director, Division of International Finance  
Mr. Holland, Adviser to the Board  
Mr. Molony, Assistant to the Board  
Mr. Cardon, Legislative Counsel  
Mr. Fauver, Assistant to the Board  
Mr. Hackley, General Counsel  
Mr. Brill, Director, Division of Research and  
Statistics  
Mr. Farrell, Director, Division of Bank Operations  
Mr. Solomon, Director, Division of Examinations  
Mr. Koch, Deputy Director, Division of Research  
and Statistics  
Mr. Partee, Associate Director, Division of  
Research and Statistics  
Mr. Gramley, Associate Adviser, Division of  
Research and Statistics  
Messrs. Goodman and Leavitt, Assistant Directors,  
Division of Examinations  
Miss Eaton, General Assistant, Office of the  
Secretary  
Mr. Eckert, Chief, Banking Section, Division of  
Research and Statistics  
Mr. Ettin, Economist, Division of Research and  
Statistics  
Mr. Maguire, Supervisory Review Examiner, Division  
of Examinations

Discount rates. The establishment without change by the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Dallas on January 27, 1966, of the rates

1/ Withdrew at point indicated in minutes.

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on discounts and advances in their existing schedules was approved unanimously, with the understanding that appropriate advice would be sent to those Banks.

Distributed items. The following items, copies of which are attached to these minutes under the respective item numbers indicated, were approved unanimously:

	<u>Item No.</u>
Letter to United California Bank, Los Angeles, California, granting an extension of time to establish a branch near Moorpark Road and Village Lane, Ventura County.	1
Letter to Bankers International Corporation, New York, New York, granting permission for Bankers International (Luxembourg), S.A.P.F., Luxembourg, to acquire additional shares of Banque G. & C. Kreglinger S.A., Antwerp, Belgium.	2

Report on competitive factors. A report to the Federal Deposit Insurance Corporation on the competitive factors involved in the proposed merger of First National Bank, Taneytown, Maryland, into Birnie Trust Company, Taneytown, Maryland, was approved unanimously for transmittal in a form in which the conclusion read as follows:

Birnie Trust Company and First National Bank are the only banks located in Taneytown, and there appears to be substantial competition between them. The overall effect of the proposed merger on competition would be adverse.

Reserve requirements on time deposits. At hearings before the Joint Economic Committee in December 1965 Congressman Reuss asked Chairman Martin why, if the 4 per cent reserve requirement on time

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deposits was meaningless, the Federal Reserve did not lower it or ask Congress for its abolition; and, if it was not meaningless, why the Federal Reserve, as an anti-inflationary step, did not raise the requirement to 6 per cent. He also asked, at another point, why the Board did not increase the required reserve on negotiable certificates of deposit from 4 per cent to 6 per cent.

A memorandum from the Division of Research and Statistics dated January 26, 1966, discussing a possible increase in reserve requirements against certificates of deposit had been distributed and considered preliminarily at yesterday's Board meeting. There had now been distributed a memorandum from Messrs. Cardon and Brill dated January 27. With this memorandum there was submitted a draft of letter to Congressman Reuss. On the question whether reserve requirements on time deposits were meaningless, the draft letter would express the view that the present authority was far from meaningless and that it should be continued. It would also state that a discussion of the considerations supporting this view was enclosed. On the question of the desirability of raising reserve requirements on time deposits as an anti-inflationary measure, the draft letter would state that the Board had not felt, at least thus far, that a change in the level of reserve requirements on time deposits would be appropriate in the economic circumstances prevailing. It would note that the Board had been authorized to adjust these requirements from time to time in response to developments in the economy, that such a

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decision could not be made in the abstract, that the Board had the matter under review and expected to continue to review possible use of the authority, along with other measures, in the light of economic conditions as they developed, and that it was believed that any further comments on this point at this time could impair the flexibility provided by the Congress for the use of the authority.

There was also submitted with the memorandum a statement of the main points for and against retaining reserve requirements against time deposits.

Governor Balderston suggested that the Board consider first the final paragraph of the proposed letter to Congressman Reuss, relating to the question of raising reserve requirements on time deposits as an anti-inflationary measure. Accordingly, attention was directed to that paragraph and various suggestions were made, the consensus appearing to be that the Board should point to its authority to adjust these requirements in response to developments in the economy, should emphasize that such a decision could not be made in the abstract, and should indicate that it had the matter under continuing review.

Consideration then was given to the second paragraph of the draft letter, in response to Mr. Reuss' first question, and it was the general view of the Board members that the present authority to fix reserve requirements on time deposits was not meaningless and should be continued. Accordingly, the question was what discussion should be

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presented in support of that view. In this connection, Governor Balderston distributed copies of a paper that Mr. Brill had handed him outlining alternative courses that a memorandum on the matter might take.

During the discussion of this point, Governor Maisel noted that a separate question involved whether action should be taken to establish a higher reserve requirement against negotiable certificates of deposit than against other time deposits. Governor Daane cited reasons why, although he might be agreeable to this under certain circumstances, he would not favor such action in the current market and banking environment. Governor Balderston recalled that in the past the legal staff had explained difficulties that it found in differentiating between negotiable and non-negotiable certificates for control purposes. Governor Balderston also observed that a graduated scale of reserve requirements, if instituted, might weigh somewhat more heavily against the city than the country banks, and that a penalty reserve requirement on negotiable certificates might then impose a second burden on the city banks. Governor Maisel indicated that he had raised with the staff certain questions to which he felt that answers should be available before further consideration was given to raising the requirement against negotiable certificates. It was generally agreed that further study in this area was indicated.

The staff then observed that the issues raised by Mr. Reuss' question were of such complexity as to require considerable time and effort for the preparation of a substantive reply of appropriate quality.

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This point was recognized by the Board, and Governor Robertson suggested a type of reply to Mr. Reuss that, in answer to his first question, would draw heavily on the pros and cons of retaining reserve requirements against time deposits, as summarized in the attachment to the Cardon-Brill memorandum. This approach was favorably received, although some members of the Board expressed a preference for avoiding a "debate type" of letter, and therefore for using only the arguments for retaining reserve requirements against time deposits. Governor Robertson indicated that he would not object, although he felt that the use of some of the negative arguments might make for a more effective letter.

At the conclusion of the discussion, it was understood that the staff would prepare a draft of letter along the lines suggested, for consideration at a meeting of the Board early next week.

Governor Maisel withdrew from the meeting at this point. Messrs. Farrell, Goodman, Leavitt, and Maguire also withdrew and the following entered the room:

Messrs. Axilrod, Bernard, and Keir of the Division of  
Research and Statistics  
Messrs. Katz, Reynolds, and Baker of the Division of  
International Finance  
Mr. Furth, Consultant

Money market review. Mr. Bernard reported on recent developments in the Government securities market and on the current Treasury financing, and Mr. Eckert commented on bank credit developments. Mr. Furth reported on latest developments in foreign exchange markets and on the balance of

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payments. Tables were distributed affording perspective on the money and capital markets and on bank reserve utilization, along with a table on the Treasury refunding.

The meeting then adjourned.

Secretary's Notes: By letter dated January 27, 1966, Chairman Rebsamen of the Federal Reserve Bank of St. Louis advised that the Board of Directors had that day, subject to the approval of the Board of Governors, appointed Dale M. Lewis, currently Vice President, as First Vice President of the Bank effective February 1, 1966, for the unexpired portion of the term ending February 28, 1966, and for the five-year term beginning March 1, 1966, and had fixed his salary at the annual rate of \$27,500 for the period February 1 through December 31, 1966. At its meeting on January 20, 1966, the Board of Governors had authorized the transmittal of informal advice to Chairman Rebsamen, pursuant to his inquiry, that the Board would approve such action if taken by the St. Louis Board of Directors. Accordingly, the letter of which a copy is attached as Item No. 3 was sent today to Chairman Rebsamen.

Acting in the absence of Governor Shepardson, Governor Robertson today approved on behalf of the Board memoranda recommending the following actions relating to the Board's staff:

#### Appointments

Patricia Ann Cuneo as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$3,814, effective the date of entrance upon duty.

Jane Hill as Statistical Assistant, Division of Research and Statistics, with basic annual salary at the rate of \$5,181, effective February 1, 1966. (Dual occupancy of position for a few business days.)

Annie Louise Liles as Clerk-Typist, Division of Research and Statistics, with basic annual salary at the rate of \$4,149, effective February 1, 1966.

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Appointments (continued)

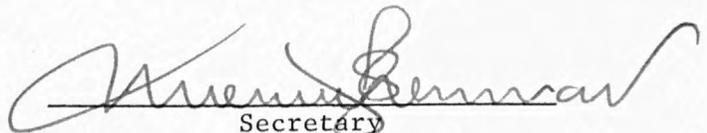
Harry Allan Tomkinson as Statistical Clerk, Division of Research and Statistics, with basic annual salary at the rate of \$4,641, effective February 1, 1966.

Jeannie Chipouras as Clerk-Typist, Division of Personnel Administration, with basic annual salary at the rate of \$4,149, effective the date of entrance upon duty.

Herman C. Bounds as Chauffeur, Division of Administrative Services, with basic annual salary at the rate of \$5,200, effective February 1, 1966.

Salary increases, effective January 30, 1966

<u>Name and title</u>	<u>Division</u>	<u>Basic annual salary</u>	
		<u>From</u>	<u>To</u>
<u>Research and Statistics</u>			
Judith Kay Schoenberg, Economist		\$8,241	\$8,961
<u>International Finance</u>			
Bette L. Robinson, Statistical Assistant		5,523	5,894
<u>Administrative Services</u>			
Thresia Elting, Cafeteria Helper		3,983	4,102
<u>Data Processing</u>			
Bessie M. McCrae, Statistical Clerk		6,036	6,207
Concetta M. Nobile, Secretary (change in title from Stenographer)		4,641	5,181
Ray M. Reeder, Digital Computer Systems Operator		5,894	6,476
Charles M. Wrenn, Digital Computer Programmer		6,269	6,476

  
Secretary

**BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

Item No. 1  
1/28/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 28, 1966

**Board of Directors  
United California Bank,  
Los Angeles, California.**

**Gentlemen:**

The Board of Governors of the Federal Reserve System extends to August 19, 1966, the time within which United California Bank, Los Angeles, California, may establish a branch in the vicinity of the intersection of Moorpark Road and Village Lane, Ventura County, California.

Very truly yours,

(Signed) Karl E. Bakke

Karl E. Bakke,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

Item No. 2

1/28/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

February 2, 1966.

Bankers International Corporation,  
16 Wall Street,  
New York 15, New York.

Gentlemen:

In accordance with the request made on behalf of your Corporation in letters dated January 12 and 20, 1966, the Board of Governors amends its letter of December 6, 1965, and grants consent for Bankers International (Luxembourg), Societe Anonyme de Participations Financieres ("BILSA"), Luxembourg, to purchase and hold approximately 33-1/3 per cent of the shares of Banque G. & C. Kreglinger S.A., Antwerp, Belgium, at a total cost of approximately US\$860,000 (equivalent), provided such stock is acquired within one year from the date of this letter.

It is noted that BILSA plans to pay for the shares by borrowing any necessary funds in the European capital market. Accordingly, the foregoing consent is given with the understanding that the total amount of foreign loans and investments of your Corporation, combined with those of Bankers Trust Company, for the purposes of the voluntary foreign credit restraint effort, will not be affected by this transaction.

Very truly yours,

(Signed) Elizabeth L. Carmichael

Elizabeth L. Carmichael,  
Assistant Secretary.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

Item No. 3  
1/28/66



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 28, 1966.

CONFIDENTIAL (FR)

Mr. Raymond Rebsamen, Chairman,  
Federal Reserve Bank of St. Louis,  
P. O. Box 442,  
St. Louis, Missouri. 63166

Dear Mr. Rebsamen:

The Board of Governors has approved the appointment of Mr. Dale M. Lewis as First Vice President of the Federal Reserve Bank of St. Louis, effective February 1, 1966, for the unexpired portion of the five-year term ending February 28, and for a term of five years beginning March 1, 1966, in concurrence with the actions taken by your Board of Directors, as reported in your letter of January 27.

The Board of Governors has also approved the payment of salary to Mr. Lewis as First Vice President, for the period February 1 through December 31, 1966, at the rate of \$27,500 per annum.

Very truly yours,

(Signed) Merritt Sherman

Merritt Sherman,  
Secretary.